PARAGON PRIVATE WEALTH MANAGEMENT

MARKET COMMENTARY

THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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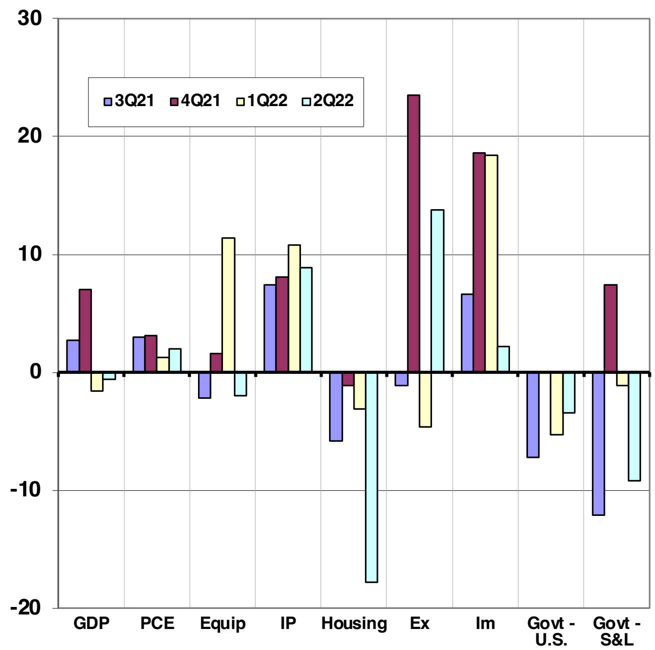
FINAL 2Q GDP READING: NEGATIVE 0.6%

In its third estimate, the Bureau of Economic Analysis said that the U.S. economy contracted at a 0.6% rate in the second quarter. As is typically the case, the report indicated areas of strength and weakness in the economy. On the positive side, the consumer appears to be in good shape, with personal consumption expenditures expanding at a 2.0% pace, driven by spending on services. Companies also continue to invest in R&D projects and software, as investments into intellectual property advanced at a 9% rate. Exports — led by sales of oil and gas to Europe — rose at a 14% clip. On the downside, though, residential investment declined 18%; consumer spending on durable goods fell 2.6%; government spending dropped 1.6%; and import services (whose growth detracts from GDP) soared 17%. The GDP report also includes an inflation measure, the PCE price index. This index, excluding food and energy, rose at a 4.7% pace, well ahead of the Fed's inflation target of 2.0%. Once again, the BEA has reported two consecutive quarters of GDP contraction. Historically, that has been a formula for recession. While we are willing to argue that the economy is still expanding, as companies generate hundreds of thousands of new jobs, the trajectory for U.S. GDP is likely to turn negative in 2023 as the Fed continues to raise interest rates. We can already see the impact of the initial Fed rate hikes on the residential sector.

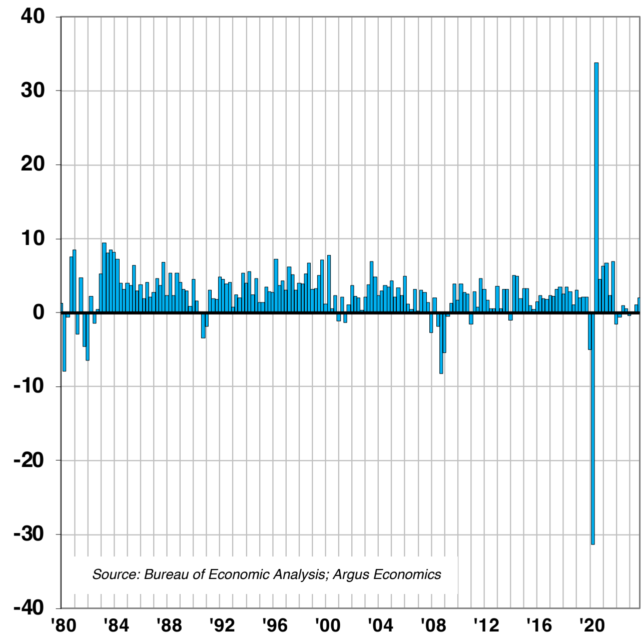
GDP GROWTH DRIVERS (%)



GDP FLIRTING WITH RECESSION

Recent data indicates that key parts of U.S. GDP are still expanding, despite the impact of inflation, the pandemic, and geopolitical tensions. But growth is not consistent across all segments of the economy, and, after two consecutive negative GDP quarters, the economy may be in a recession. Based on our review of the latest economic fundamentals, our forecast for GDP growth in 2022 is now -0.2%, down from our prior forecast of 0.7%. Our preliminary forecast for 2023 is 0.7%, down from 1.8%, assuming that economic trends start the year in negative territory but improve as the year goes on. The Fed is combating inflation with aggressive rate hikes, and we look for several more increases at upcoming Fed meetings into 2023. The concern is that the central bank is raising rates too quickly and will send the U.S. economy into recession. If that's the case, we would expect the unemployment rate to head toward 6.0% over the next few quarters. Our estimates differ a bit from consensus. The Federal Reserve expects GDP growth of 0.2% in 2022, while the IMF calls for growth of 1.6%. The Philadelphia Fed's Survey of Professional Forecasters also expects growth of 1.6% in 2022.

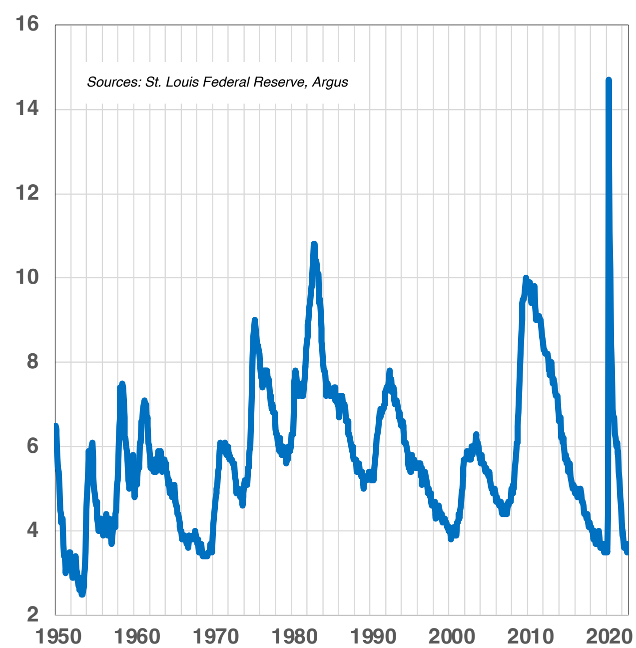
GDP TRENDS & OUTLOOK (% CHANGE)



263,000 NEW JOBS IN SEPTEMBER

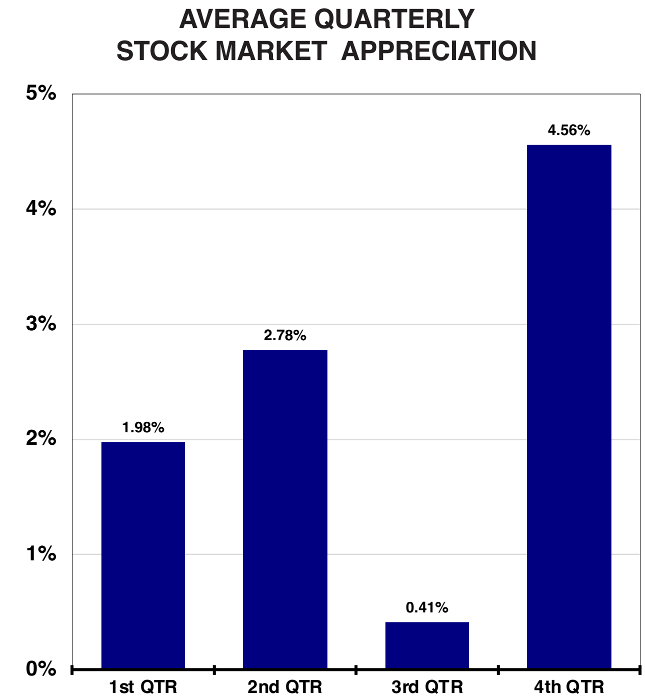
The U.S. economy generated a solid 263,000 new jobs in September, in line with consensus expectations and above our forecast of 225,000. The unemployment rate ticked lower to 3.5% -- the pre-pandemic level – as the labor force participation rate declined by 10 basis points to 62.3%. Average hourly earnings rose $0.10 from the prior month and 5.0% from the prior year, down slightly from 5.2% year-over-year growth in August. Revisions to the job totals in the two prior months added 11,000 jobs. In September, employment gains occurred in leisure and hospitality, professional and business services, healthcare, construction, and manufacturing. Retail employment was relatively steady. The employment gains in September, though down from August, suggest that the consumer segment of the economy is likely to remain on a growth track — despite the impact of Fed rate hikes, the Russian invasion of Ukraine, and high prices at the pump. There were few signs that inflation is likely to cool.

U.S. UNEMPLOYMENT RATE (%)



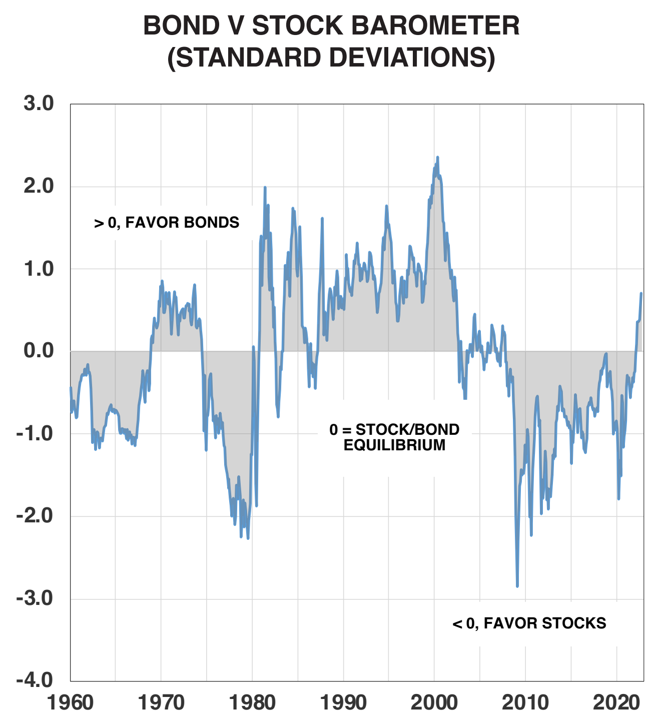
FOURTH QUARTER TYPICALLY POSITIVE FOR STOCKS

In theory, investors can breathe easier heading into the fourth quarter, as markets typically post the strongest returns of the year. We analyzed data collected on S&P 500 performance from 1980-2020. By our calculations, the fourth quarter has generated average gains of 4.6%, compared to gains of 2.0%, 2.8%, and 0.4% for 1Q, 2Q, and 3Q, respectively. The fourth quarter is consistent as well, with a "win percentage" of 81%. This means that 4Q stock returns are positive in four years out of five, and compares to winning percentages of 65% in 1Q, 65% in 2Q, and 63% in 3Q (including 3Q22, which was down 5.2%). Still, 4Q has posted its share of clunkers. In 1987, which included Black Friday, stocks fell 23% during the period; in 2008, they dropped 18% after the collapse of Lehman Brothers and as the U.S. economy plunged into a deep recession. As recently as 2018, stocks slid 14% in the final quarter when trade wars intensified and the Fed raised rates. Last year, stocks rose 10.6% in 4Q. That would be a welcome return in 2022, in which stocks have fallen into a bear market. As 4Q unfolds, it is not unreasonable to expect continued volatility.

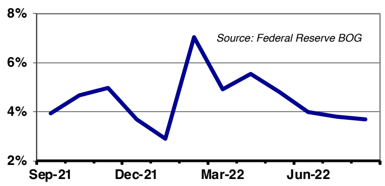


STOCKS AT PREMIUM, DESPITE SELLOFF

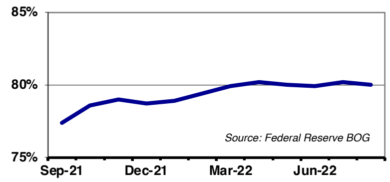
Our bond/stock asset-allocation model indicates that both stocks and bonds are overvalued, despite selloffs in both asset classes in 2022. Our model takes into account current levels and forecasts of short-term and long-term government and corporate fixed-income yields, inflation, stock prices, GDP, and corporate earnings, among other factors. The output is expressed in terms of standard deviations to the mean, or sigma. The mean reading from the model, going back to 1960, is a modest premium for stocks of 0.15 sigma, with a standard deviation of 1.0. The current valuation level is a 0.7 sigma premium for stocks, well within the normal range. The model has done a good job of highlighting value. Stocks were very attractive compared to bonds in the late 1970s, when benchmark Treasury rates were in the high teens before heading consistently lower. The model indicated that stocks were at a sharp premium to fair value compared to bonds prior to the "dot-com" crash of 2001 and prior to the Great Recession. In 2009, at the depths of the financial crisis, the model indicated that stocks were deeply oversold -- another good call. Markets can manage with premiums and discounts for extended periods.



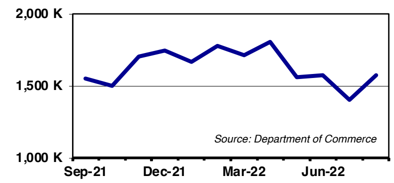
Release:	**Industrial Production**
Date:	10/18/2022
Month:	September
Previous Report:	3.7%
Argus Estimate:	3.5%
Street Estimate:	NA



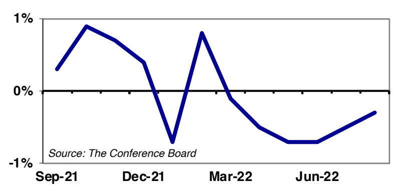
Release:	**Capacity Utilization**
Date:	10/18/2022
Month:	September
Previous Report:	80.0%
Argus Estimate:	80.0%
Street Estimate:	79.8%



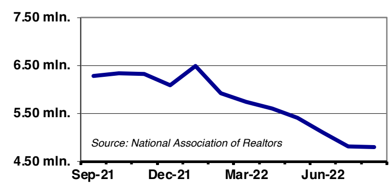
Release:	**Housing Starts**
Date:	10/19/2022
Month:	September
Previous Report:	1,575 K
Argus Estimate:	1,500 K
Street Estimate:	1,490 K



Release:	**Leading Index**
Date:	10/20/2022
Month:	September
Previous Report:	-0.3%
Argus Estimate:	-0.2%
Street Estimate:	-0.3%



Release:	**Existing Home Sales**
Date:	10/20/2022
Month:	September
Previous Report:	4.80 mln.
Argus Estimate:	4.60 mln.
Street Estimate:	4.70 mln.



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
12-Oct	PPI Final Demand	September	8.7%	8.0%	8.4%	NA
	PPI ex-Food & Energy	September	7.3%	7.0%	7.1%	NA
13-Oct	Consumer Price Index	September	8.3%	8.0%	8.1%	NA
	CPI ex-Food & Energy	September	6.3%	6.0%	6.3%	NA
14-Oct	Retail Sales	September	9.1%	7.0%	NA	NA
	Retail Sales; ex-autos	September	9.7%	7.5%	NA	NA
	Business Inventories	August	18.4%	15.0%	NA	NA
	Import Price Index	September	7.8%	7.2%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
25-Oct	Consumer Confidence	October	108.0	NA	NA	NA
26-Oct	Wholesale Inventories	September	25.1%	NA	NA	NA
	New Home Sales	September	685 K	NA	NA	NA
27-Oct	GDP Annualized QoQ	3Q	-0.6%	NA	NA	NA
	GDP Price Index	3Q	9.0%	NA	NA	NA
	Durable Goods Orders	September	11.3%	NA	NA	NA
28-Oct	Personal Income	September	3.9%	NA	NA	NA
	Personal Spending	September	8.2%	NA	NA	NA
	PCE Deflator	September	6.2%	NA	NA	NA
	PCE Core Deflator	September	4.9%	NA	NA	NA

Investors